

Message Text

CONFIDENTIAL

PAGE 01 PARIS 10140 01 OF 02 242034Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 PA-01 NSC-05 SS-15 STR-07
CEA-01 /087 W

-----124082 242110Z /73

R 241831Z MAR 78
FM AMEMBASSY PARIS
TO DEPARTMENT OF TREASURY
SECSTATE WASHDC 9131

C O N F I D E N T I A L SECTION 1 OF 2 PARIS 10140

PASS FEDERAL RESERVE

EO 11652: GDS
TAGS: EFIN FR
SUBJECT: THE GOF WEIGHS THE TECHNICAL ASPECTS OF
ECONOMIC POLICY

1. BOTH INSEE AND THE PREVISION OF THE MOF RECENTLY
HAVE JUST CONCLUDED COMPUTER SIMULATIONS BASED ON THE
MOF'S METRIC MODEL OF THE FRENCH ECONOMY IN ORDER TO
ESTIMATE THE RESULTS OF VARIOUS ASSUMPTIONS ABOUT
ECONOMIC GROWTH RATES IN 1978-79. IN EVERY CASE THESE
SIMULATIONS HAVE SHOWN THAT THERE IS VERY, VERY LITTLE
ROOM FOR MANEUVER IN TERMS OF ECONOMIC EXPANSION BECAUSE
OF BALANCE OF PAYMENTS AND INFLATION CONSTRAINTS. THESE
STUDIES WERE DONE FOR THE ELYSEE AND THE PRIME MINISTER
TO PROVIDE THE TECHNICAL BASIS FOR THE DEVELOPMENT OF
ECONOMIC POLICY. END SUMMARY

2. THE FINDINGS OF INSEE AND THE PREVISION SHOW SEVERE
CONSTRAINTS AS THE REAL RATE OF GROWTH APPROACHED 4.0
PERCENT. ON ALL SIMULATIONS, AT A 4.0 PERCENT GROWTH
RATE, IMPORTS GROW AT RATE OF 3 TO 1 FOR INCREASES IN
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 PARIS 10140 01 OF 02 242034Z

GNP WHILE THE INFLATION RATE RISES BY SLIGHTLY MORE
THAN ONE PERCENT. AT MUCH ABOVE A 4.0 PERCENT GROWTH
RATE, SAY ABOUT 4.5, IMPORTS WOULD RISE BY ALMOST 4 TO 1
FOR INCREASES IN GNP, AND THE INFLATION RATE WOULD
RISE BY AT LEAST 2 PERCENT. ONLY GROWTH RATES BELOW
ABOUT 3.1 PERCENT SHOW RELATIVE PRICE STABILITY AND
CONTINUED IMPROVEMENT IN THE CURRENT LEVEL OF THE TRADE

DEFICIT. THE BAND BETWEEN 3.2 PERCENT AND 3.5 PERCENT REAL GROWTH RATES SHOWS MODERATE PRICE PRESSURES AND RELATIVELY LITTLE IMPROVEMENT IN THE CURRENT TRADE DEFICIT. SINCE ECONOMIC GROWTH DURING THE FIRST QUARTER OF 1978 HAS BEEN VIRTUALLY FLAT, A 3.1 PERCENT GROWTH RATE FOR 1978 AS A WHOLE WOULD REPRESENT A RESULT THAT WOULD SHOW LITTLE, IF ANY, IMPROVEMENT IN THE TRADE DEFICIT AND A 0.5 PERCENT RISE IN THE ONGOING RATE OF INFLATION. THIS WOULD HAPPEN BECAUSE THE REAL GROWTH RATE DURING THE SECOND HALF OF THE YEAR WOULD HAVE TO APPROACH 4.0 PERCENT ANNUAL RATE ON A QUARTER-OVER-QUARTER BASIS IN ORDER TO OFFSET THE ZERO GROWTH RATE OF THE FIRST QUARTER. MOREOVER, SUCH A RESULT WOULD REQUIRE SOME FINE TUNING IN EARLY 1979 IN ORDER TO MODERATE THE BY THEN ONGOING QUARTER-OVER-QUARTER INCREASES IN ORDER TO KEEP THE 1979 ANNUAL GROWTH RATE BELOW THE CLEARLY CRITICAL 4.5 PERCENT LEVEL. IN SHORT, TO BE ON THE SAFE SIDE IN TERMS OF BALANCE OF PAYMENTS AND INFLATIONARY PRESSURES, THE FRENCH ECONOMY HAS A MARGIN OF ONLY ABOUT 0.5 PERCENT IN TERMS OF AN INCREASE IN REAL GROWTH RATES DURING THE 1978-79 PERIOD, ACCORDING TO INSEE AND PREVIOUS ECONOMETRIC MODEL SIMULATIONS. THUS, A REAL GROWTH RATE OF ABOUT 3.5 PERCENT WOULD BE THE MAXIMUM RATE WHICH WOULD STILL ALLOW FOR CONTINUED PRICE STABILITY AND IMPROVEMENT IN THE BALANCE OF PAYMENTS DURING THE 1978-79 PERIOD.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 PARIS 10140 01 OF 02 242034Z

3. IN THESE SIMULATIONS A RISE IN GLOBAL DEMAND OF ONE PERCENT WOULD NOT MAKE MUCH DIFFERENCE FOR THE FRENCH BALANCE OF PAYMENTS BECAUSE THE KEY VARIABLE IS THE RATE OF FRENCH IMPORTS TO INCREASES IN GNP WHICH WOULD MUCH MORE THAN OFFSET THE EXPECTED RISE IN FRENCH EXPORTS RESULTING FROM SUCH AN INCREASE IN GLOBAL DEMAND. IN SHORT, AT A 4.0 PERCENT REAL GROWTH RATE OF THE FRENCH ECONOMY, A ONE PERCENT RISE IN GLOBAL DEMAND IN 1978 WOULD NOT PREVENT A SERIOUS DETERIORATION IN THE FRENCH BALANCE OF PAYMENTS.

4. AN INTERESTING FEATURE OF THESE STUDIES IS THAT AN INCREASE IN WELFARE TRANSFER PAYMENTS HAS LESS INFLATIONARY IMPACT THAN A CORRESPONDING WAGE INCREASE. AS FOR WAGE INCREASES, ANY REAL INCREASE ABOVE ABOUT 2 PERCENT SHOWS SIGNIFICANT INFLATIONARY EFFECTS.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 PARIS 10140 02 OF 02 242036Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 USIA-06 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 PA-01 NSC-05 SS-15 STR-07
CEA-01 /087 W

-----124113 242107Z /73

R 241831Z MAR 78
FM AMEMBASSY PARIS
TO DEPARTMENT OF TREASURY
SECSTATE WASHDC 9132

C O N F I D E N T I A L SECTION 2 OF 2 PARIS 10140

PASS FEDERAL RESERVE

5. THESE STUDIES ARE NOW BEING REVIEWED BY GISCARD AND
BARRE. THEY OBVIOUSLY SHOW THE NEED FOR PRUDENT
ECONOMIC POLICY OR, PUT ANOTHER WAY, THE CLEAR
DESTABILIZING RISKS INHERENT IN AN EXPANSION OF THE
FRENCH ECONOMY ABOVE AN UNDERLYING 3.5 PERCENT ANNUAL
RATE IN THE 1978-79 PERIOD. WHETHER SUCH TECHNICAL
CONSIDERATIONS WILL DETERMINE ECONOMIC POLICY REMAINS
TO BE SEEN, BUT THEIR MESSAGE IS CLEAR: A POLICY AIMED
AT 4.5 PERCENT REAL GROWTH IN 1978-79 IS A HIGH RISK
POLICY WHICH COULD EASILY BACKFIRE BY DE-
STABILIZING THE FRENCH ECONOMY AND CAUSING A RECESSION
IN THE SECOND HALF OF 1979.
HARTMAN

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC GROWTH, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 24 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978PARIS10140
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780131-0099
Format: TEL
From: PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780328/aaaaaxld.tel
Line Count: 152
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 30ef37be-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 18 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3212008
Secure: OPEN
Status: NATIVE
Subject: THE GOF WEIGHS THE TECHNICAL ASPECTS OF ECONOMIC POLICY
TAGS: EFIN, FR
To: TRSY STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/30ef37be-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014